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1960

GRAHAM-PAIGE CORPORATION

Annual

REPORT

FOR THE YEAR ENDED

DECEMBER THIRTY-FIRST

1960

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COMMON STOCK

BANKERS TRUST COMPANY
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THE DETROIT BANK AND TRUST COMPANY
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COMMON STOCK

MANUFACTURERS TRUST COMPANY
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PREFERRED STOCK

MANUFACTURERS TRUST COMPANY
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COUNSEL

SIMPSON THACHER & BARTLETT
NEW YORK, N. Y.

AUDITORS

ARTHUR YOUNG & COMPANY
NEW YORK, N. Y.

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GRAHAM-PAIGE CORPORATION

410 Park Avenue

New York 22, New York

March 1, 1961

To The Stockholders:

There are submitted herewith the audited financial statements of the Corporation and its principal subsidiary, Royal American Corporation, for the year ended December 31, 1960. As set forth therein, the total stockholders' equity of the Corporation at December 31, 1960 was $16,488,306, or $1.88 per common share, compared with a total stockholders' equity of $17,221,429, or $2.26 per common share, at December 31, 1959. The Corporation had net income during the year of $9,422, before net realized gain of $109,078 on investments.

Madison Square Garden Corporation was merged into the Corporation on April 20, 1960, and thereafter Madison Square Garden was operated as a division of the Corporation. Operations of the Garden for the year were approximately at the same levels as in 1959. In November 1960, your management announced its plans for the creation of a New York Sports and Entertainment Center which would include a new Madison Square Garden; and, since the original announcement, considerable progress has been made in furthering this exciting program.

The principal activities of Royal American Corporation (63% owned by the Corporation) include those of Crose-Perrault Equipment Corporation, which is engaged in the manufacture and distribution of pipe line construction and maintenance equipment, and A. E. & R. F. Raidle, Inc., which has real estate holdings in Florida. Royal American reported consolidated net loss of $17,385 for the year ended December 31, 1960 before net profit from special items of $102,900. This compares with a net loss of $502,015 during 1959. Sales and other revenues totalled $7,161,486 during 1960 as compared with $6,902,765 during 1959.

Respectfully submitted,

John J. Bergen
Chairman

Irving Mitchell Felt
President

GRAHAM-PAIGE CORPORATION

BALANCE SHEET

December 31, 1960

ASSETS

	General corporate	*Madison Square Garden Division* (*Note 1*)	*Combined*
Current assets:			
Cash	$ 459,170	$ 404,438	$ 863,608
Accounts receivable (less $10,264 allowance for losses)	369	253,718	254,087
Account receivable in 1961 from sale of investment (Note 3)	525,000		525,000
Accounts receivable from subsidiaries	23,065		23,065
Inventories of concession merchandise and operating supplies, at lower of cost or market		84,934	84,934
Prepaid expenses	4,949	174,756	179,705
Total current assets	1,012,553	917,846	1,930,399
Investments, at market quotations or management's valuations (see statement):			
Securities and indebtedness of subsidiaries (Note 2)	4,727,615	1,196,140	5,923,755
Securities of affiliate not controlled	1,125,000		1,125,000
Other security investments and indebtedness (Note 3)	1,100,000	1,500	1,101,500
Other investments	125,000		125,000
Property, buildings and equipment of Madison Square Garden Division, at management's valuation (Note 1):			
Land (allocated cost the same)		3,500,000	3,500,000
Buildings and equipment (allocated cost less $167,444 depreciation since April 20, 1960, $4,051,210)		7,250,000	7,250,000
Hockey and basketball franchises and player contracts, at management's valuation (allocated cost the same) (Note 1)		1,600,000	1,600,000
Office furniture and equipment and leasehold improvements, at cost (less depreciation and amortization, $8,143)	38,651		38,651
Unamortized loan discount and expense		92,014	92,014
Deferred charges and other assets	4,000	27,558	31,558
	$8,132,819	$14,585,058	$22,717,877

See accompanying notes.

GRAHAM-PAIGE CORPORATION

BALANCE SHEET

December 31, 1960

LIABILITIES

	General corporate	*Madison Square Garden Division* (*Note 1*)	*Combined*
Current liabilities:			
Accounts payable and accrued expenses	$ 62,860	$ 726,964	$ 789,824
Dividends payable on preferred stock	82,408		82,408
Accounts payable to subsidiaries		35,452	35,452
Federal income taxes—prior years (Note 4)		71,771	71,771
Advance sales of tickets, advertising rights, and rentals		490,777	490,777
Total current liabilities	145,268	1,324,964	1,470,232
6% mortgage note, due December 14, 1962		3,000,000	3,000,000
Public liability insurance reserve (Note 1)		210,339	210,339
Deferred federal income taxes (Note 1)		74,000	74,000
Federal income taxes which might be payable in the future upon realization of unrealized appreciation (Note 4)	1,475,000		1,475,000
	$1,620,268	$ 4,609,303	6,229,571
Contingent liabilities (Notes 4 and 6)			

STOCKHOLDERS' EQUITY

$.60 cumulative preferred stock, without par value, 650,000 shares authorized, 510,085 shares outstanding including 33,856 shares held for exchange for shares of capital stock of Madison Square Garden Corporation (Notes 1 and 5)		$ 4,526,916	
Common stock, par value $1 per share, 7,990,000 shares authorized, 6,058,169 shares outstanding (Note 5)		6,058,169	
Retained earnings (see statement):			
Undistributed net income	$2,024,047		
Accumulated net realized gain on investments reduced by $2,598,181 transferred to common stock account in prior year	195,424	2,219,471	
Unrealized appreciation of investments and other assets (see statement)		3,683,750	
Total stockholders' equity			16,488,306
			$22,717,877

See accompanying notes.

GRAHAM-PAIGE CORPORATION

STATEMENT OF INCOME

Year ended December 31, 1960

Madison Square Garden Division (Note 1):		
Revenue from attractions		$ 8,524,428
Rentals and miscellaneous income		163,790
		8,688,218
Direct costs of attractions	$5,674,237	
Operating and administrative expenses	2,004,128	
Depreciation (Note 1)	254,928	
Interest and amortization of loan expense	227,168	8,160,461
		527,757
General corporate income:		
Interest	46,897	
Royalties and rentals from subsidiary (less $11,540 amortization and depreciation)	42,257	
Miscellaneous	427	89,581
		617,338
General corporate expenses:		
Compensation—officers (excluding $33,000 charged to Madison Square Garden Division)	189,063	
Compensation—others	53,066	
Directors' fees	10,300	
Business investigations, traveling and entertainment	35,206	
Legal and auditing services	46,000	
Stockholder services—transfer agent, registrar, reports, meetings and other expenses	123,767	
Office rent	28,037	
Office expenses, insurance, contributions and miscellaneous	51,290	
Taxes other than federal income tax	6,394	
Interest	27,750	
Administration charge to Royal American Corporation	(60,000)	510,873
Income before deductions below		106,465
Deferred federal income tax (Note 1)		50,000
Net income before minority interest		56,465
Minority interest in net income of Madison Square Garden Corporation prior to date of merger		47,043
Net income		$ 9,422
Net realized gain on investments (see statement)		$ 109,078
Net decrease in unrealized appreciation of investments and other assets (see statement)		$(1,997,593)

See accompanying notes.

GRAHAM-PAIGE CORPORATION

STATEMENT OF RETAINED EARNINGS

Year ended December 31, 1960

	Undistributed net income	*Accumulated net realized gain on investments*	*Total*
Balance at December 31, 1959	$2,291,635	$ 86,346	$2,377,981
Net income for the year	9,422		9,422
Net realized gain on investments for the year		109,078	109,078
	2,301,057	195,424	2,496,481
Cash dividends declared on $.60 cumulative preferred stock:			
On 350,000 shares outstanding throughout the year—60¢ per share	210,000		210,000
On 160,085 shares exchanged or held for exchange for shares of capital stock of Madison Square Garden Corporation—41.667¢ per share (plus adjustments)	67,010		67,010
	277,010		277,010
Balance at December 31, 1960	$2,024,047	$195,424	$2,219,471

See accompanying notes.

GRAHAM-PAIGE CORPORATION

STATEMENT OF NET REALIZED GAIN ON INVESTMENTS

Year ended December 31, 1960

	Securities of affiliates not controlled	*Marketable securities*	*Total*
Proceeds	$1,000,285	$316,452	$1,316,737
Cost	825,000	324,000	1,149,000
Net realized gain on sale of investments	$ 175,285	$ (7,548)	167,737
Investments written off:			
Nonproducing oil and gas leases		$ 23,159	
Zoro Corporation, 5% note		11,500	34,659
			133,078
Deferred federal income tax (Note 1)			24,000
Net realized gain on investments			$ 109,078

STATEMENT OF UNREALIZED APPRECIATION (DEPRECIATION) OF INVESTMENTS AND OTHER ASSETS

Year ended December 31, 1960

	Balance Dec. 31, 1959	*Increase (decrease) in 1960*	*Balance Dec. 31, 1960*
Securities of subsidiaries:			
Madison Square Garden Corporation (Note 1)	$ 438,700	$ (438,700)	
Other subsidiaries	6,707,251	(4,307,264)	$2,399,987
Securities of affiliates not controlled:			
Hotel Corporation of America	229,736	(406,250)	(176,514)
Botany Industries, Inc. (ceased to be an affiliate in 1960)	350,000	(695,709)	(345,709)
Property, buildings and equipment of Madison Square Garden Division		3,198,790	3,198,790
Patents and rental equipment	95,656	(13,460)	82,196
	7,821,343	(2,662,593)	5,158,750
Less federal income taxes which might be payable in the future upon realization of unrealized appreciation	2,140,000	(665,000)	1,475,000
	$5,681,343	$(1,997,593)	$3,683,750

See accompanying notes.

GRAHAM-PAIGE CORPORATION

STATEMENT OF INVESTMENTS

December 31, 1960

		Value as carried in balance sheet
SUBSIDIARIES (Note 2)		
Royal American Corporation:		
2,423,264 shares of Class A stock, at market quotation for common stock into which convertible (cost $3,104,075)		$4,543,620
2,131 shares of common stock, at market quotation (cost $2,730)		3,995
Graham-Paige Realty Corporation:		
250 shares of capital stock, at management's valuation (cost $68,323)		180,000
49th Street Parking Lot, Inc.:		
250 shares of capital stock, at management's valuation (cost $40,000)		615,000
Other subsidiaries, at management's valuations:		
Capital stocks (cost $113,720)		386,220
Indebtedness (cost $194,920)		194,920
		$5,923,755
AFFILIATE NOT CONTROLLED		
Hotel Corporation of America:		
250,000 shares of common stock, at market quotation (cost $1,301,514)		$1,125,000
OTHER SECURITY INVESTMENTS AND INDEBTEDNESS		
Botany Industries, Inc. (Note 3):		
25,000 shares of common stock, at option price to which subject (cost $100,000)		$ 100,000
$1,183,409 notes receivable due after May 1, 1962	$1,183,409	
Accrued interest due after May 1, 1962	162,300	
	1,345,709	
Less reduction to management's valuation	345,709	1,000,000
United States Treasury Bond, 2½%, December 15, 1972, at cost		1,500
		$1,101,500
OTHER INVESTMENTS		
Patents used by subsidiary, at management's valuation (cost as reduced by amortization $42,137)		$ 120,000
Equipment rented to subsidiary, at management's valuation (cost as reduced by depreciation $667)		5,000
		$ 125,000

See accompanying notes.

GRAHAM-PAIGE CORPORATION

NOTES TO FINANCIAL STATEMENTS

Year ended December 31, 1960

NOTE 1. *Madison Square Garden Division*

Madison Square Garden Corporation (approximately 80% of whose capital stock was owned by the Corporation after the redemption on January 2, 1960 of shares owned by Royal American Corporation) was merged into the Corporation at the close of business on April 20, 1960. Pursuant to the Agreement of Merger, the 288,551 shares of Madison Square Garden owned by the Corporation were cancelled, and the holders of the remaining 71,149 shares outstanding (after redemption by Madison Square Garden of a total of 203,800 shares at $20 per share) were entitled to receive 2¼ shares of $.60 cumulative preferred stock of the Corporation for each share of capital stock of Madison Square Garden. Pursuant thereto 126,229 shares of preferred stock have been issued and 33,856 shares are held for exchange for shares of Madison Square Garden. Of the shares of preferred stock still not issued 23,232 shares are held for holders of 10,325 shares of Madison Square Garden who dissented to the merger and sought rights of appraisal. Such appraisal rights were denied by the Supreme Court of the State of New York, and such denial has been unanimously affirmed by the Appellate Division of such Court.

The cost to the Corporation of acquiring Madison Square Garden exceeded the equity in net assets as shown by its books (after the redemption by it of 203,800 shares), at January 2, 1960 as to 80% and at April 20, 1960 as to 20%, by $5,326,390. This excess cost has been allocated to the following assets:

Marketable securities (since sold)	$ 92,412
Land	1,776,419
Buildings and equipment	1,857,559
Franchises and player contracts	1,600,000

Depreciation of buildings and equipment has been computed from April 20, 1960 on the basis of cost including the $1,857,559 added cost shown above. At the same date new classifications of depreciable property were adopted and estimated useful lives were extended so that depreciation for the period from April 20, 1960 to December 31, 1960 charged in the statement of income is $27,775 less than would have been charged on the basis of estimated lives and classifications formerly used as applied to cost shown by the books of Madison Square Garden Corporation. The cost allocated to hockey and basketball franchises and player contracts is not being amortized or depreciated in the financial statements.

For income tax purposes the cost of the 288,551 shares of Madison Square Garden acquired by the Corporation for cash has likewise been allocated among assets acquired in the merger. Since a relatively greater proportion is allocated for tax purposes to depreciable assets and since costs allocated to player contracts acquired are being amortized for tax purposes, no federal income tax is payable based on filing a consolidated return for the year 1960. Deferred income tax has, however, been provided in the amount which would be payable based on the income and realized gains shown in the financial statements.

The financial statements as regards the Madison Square Garden Division include a subsidiary, Madison Square Garden Boxing, Inc., whose operations are an integral part of the operations of Madison Square Garden. In the statement of income, the Madison Square Garden Division includes Madison Square Garden Corporation for the period from January 1, 1960 through April 20, 1960.

Madison Square Garden carries outside public liability insurance against losses in excess of $20,000 per accident case.

NOTE 2. *Subsidiaries*

At December 31, 1960, the Corporation owned 63% of the outstanding voting stock of Royal American Corporation (its Class A Stock is convertible into common stock on a share-for-share basis) and 100% of the outstanding capital stocks of other subsidiaries. The values at which the investments in subsidiaries are carried in the balance sheet exceeded the equity in net assets as shown by the books of such subsidiaries at December 31, 1960 by the following amounts:

Royal American Corporation	$867,229
Graham-Paige Realty Corporation	117,792
49th Street Parking Lot, Inc.	575,000
Other subsidiaries	272,500

Consolidated financial statements for Royal American Corporation are included in this report.

NOTE 3. *Investment in Botany Industries, Inc.*

In March 1957, the Corporation sold to Botany Industries, Inc. ("Botany") all the outstanding capital stock of United Supply & Manufacturing Co. ("United Supply") for a consideration which included 225,000 shares of Botany's common stock (25,000 of which shares are subject to options exercisable prior to May 1, 1962 at $4 per share by the operating management of United Supply) and Botany's 4% note for $950,000. In the sale the Corporation was relieved of obligation for the balance of the original purchase price for the United Supply stock, amounting to $2,896,999 at the date of sale, but was obligated, if requested by Botany, to pay interest on the unpaid balance in excess of $1,000,000 and to pay a related account payable of $47,425, receiving therefor additional 4% notes from Botany. Through December 31, 1960, the Corporation has paid interest of $210,984 and $22,425 of the account payable, receiving additional notes in the same amount.

Interest on the Botany 4% notes from March 1957, or later date of issue, to May 1, 1962 is payable on the latter date (or earlier under certain conditions) and thereafter semi-annually. Principal payments on the notes are likewise to commence on May 1, 1962 (or earlier in the event of earlier liquidation by Botany of the balance of the original purchase price). The principal is thereafter payable to the extent of 75% of the net income after taxes of United Supply with any remaining balance, subject to the comments below, payable on December 31, 1970. The balance of the original purchase price, amounting to $2,067,907 at December 31, 1960, is payable to the original sellers by Botany in 1961 to the extent of 50% of United Supply's income before federal income taxes for 1960, and the balance in 1962. In the event of default and sale of the collateral security mentioned in the next paragraph, Botany has no liability for payment of any deficiency either to the original sellers or to the Corporation.

The outstanding capital stock of United Supply is pledged initially to secure the $2,067,907 unpaid balance of the original purchase price and secondarily to secure the 4% notes and accrued interest payable to the Corporation, amounting to $1,345,709 at December 31, 1960. A condensed statement of the financial position of United Supply at December 31, 1960 and the results of its operations for the two years then ended follows:

Assets:

	Dec. 31, 1960
Current assets:	
Cash and government securities	$ 691,023
Receivables	2,515,938
Inventories and prepaid expenses	1,951,747
Total current assets	5,158,708
Noncurrent receivables and other assets	161,831
Fixed assets, less $506,142 depreciation	222,057
	$5,542,596

Liabilities and stockholder's equity:

Current liabilities:	
Accounts payable and accrued liabilities	$ 952,575
Current maturities of long-term debt	104,000
Total current liabilities	1,056,575
Long-term debt	730,000
Stockholder's equity	3,756,021
	$5,542,596

Income:

	1959	*1960*
Sales	$17,517,008	$13,084,996
Costs and expenses	17,240,690	13,080,837
	276,318	4,159
Income taxes	107,500(*)	2,500
Net income	168,818	1,659
Dividends paid (applied by Botany as payment on original purchase price)	—	144,958
Increase (decrease) in retained earnings	$ 168,818	$ (143,299)

(*) Reduced $34,000 from amount previously accrued.

In December 1960, the Corporation sold the 200,000 shares of Botany Industries, Inc. not subject to the option mentioned above. Payment for 100,000 shares at $4.50 per share was received on December 30, 1960; payments for the other 100,000 shares are to be made at $5.25 per share against delivery as requested by the purchaser prior to June 30, 1961. Through February 21, 1961 payments have been received with respect to 56,450 of such shares.

NOTE 4. *Federal income taxes*

The Corporation does not qualify to be taxed as a "regulated investment company" under Subchapter M of the Internal Revenue Code and hence is subject to federal income taxes applicable to corporations generally.

The Internal Revenue Service has completed examination of the consolidated income tax returns of the Corporation through 1956 and all taxes assessed have been paid. The Service has also examined the consolidated income tax return of the Corporation for the year 1957 and has proposed to assess a deficiency of approximately $140,000 for that year. The Corporation proposes to protest any deficiency, if assessed, and has not provided any liability therefor in the financial statements.

A provision has been made in the balance sheet (deducted from unrealized appreciation) for federal income tax (computed at the rate applicable to long-term capital gains) which might be payable in the event of realization of unrealized appreciation of investments through sale of the related assets. The provision takes into account the reduced basis for tax purposes of the investment in Royal American resulting from losses availed of in consolidated tax returns, which basis is approximately $2,380,000 as compared with cost of $3,106,805 shown in the financial statements.

As stated in Note 1 a deferred income tax provision has also been made because of differences between depreciation and amortization for tax purposes and amounts reflected in the financial statements.

NOTE 5. *Capital stocks*

The $.60 cumulative preferred stock, without par value (formerly 6% cumulative preferred stock, $10 par value) is convertible into common stock on the basis of $10 for the preferred stock and 3.33⅓ per share for the common stock through April 30, 1962, $3.83⅓ per share thereafter through April 30, 1965, and $4.33⅓ per share thereafter through April 30, 1969. Of the authorized but unissued common stock, 1,050,000 shares are reserved for conversion of the preferred stock sold in 1959 and up to 480,255 additional shares are reserved for conversion of preferred stock issued or held for issue as a result of the merger of Madison Square Garden with the Corporation—see Note 1.

Commissions and expenses in amount of $396,064 relating to the sale of 350,000 shares of preferred stock in 1959, formerly carried as a separate deduction in the stockholders' equity section of the balance sheet, have now been charged against the preferred stock account in view of the change from a par value stock to one without par value.

The $.60 cumulative preferred stock has a preference in voluntary or involuntary liquidation of $10 per share and may be redeemed at $10.50 per share.

NOTE 6. *Contingent liabilities*

Madison Square Garden Corporation and its former boxing subsidiary and certain officers thereof are defendants in civil suits brought under the Federal antitrust laws. Counsel for the Corporation are of the opinion that recovery, if any, in these actions will not be material.

GRAHAM-PAIGE CORPORATION

SUPPLEMENTAL INFORMATION

Year ended December 31, 1960

Remuneration of directors or officers

The following sets forth the aggregate remuneration for services in all capacities directly or indirectly paid or set aside by the Corporation and its subsidiaries during the year ended December 31, 1960 to the following persons while acting as directors or officers of the Corporation (excluding individuals who acted solely as officers of Madison Square Garden Division): all directors for regular compensation, $51,790; all directors for special compensation, $3,350; all officers, $247,063; Simpson Thacher & Bartlett, of which firm William M. Jennings, an officer and director, is a partner, for legal fees, $76,000.

Purchases and sales of investment securities

The aggregate cost of purchases and proceeds of sales of investment securities, other than United States Government securities, during the year ended December 31, 1960 were $552,725 (including cost allocated to marketable securities acquired in merger with Madison Square Garden Corporation) and $1,316,737 (including proceeds of $525,000 receivable in 1961).

ROYAL AMERICAN CORPORATION

CONSOLIDATED BALANCE SHEET

December 31, 1960

ASSETS

Current assets:		
Cash		$ 307,141
Accounts and notes receivable, less $85,300 allowance for losses (Note 4)		1,591,083
Real estate commissions receivable (Note 1)		219,012
Mortgages receivable (Note 1)		171,941
Inventories, at or below cost (first-in, first-out basis) not in excess of market (Note 4):		
Parts and equipment held for sale	$ 938,371	
Equipment held for sale or rental	706,744	
Work in process, materials and supplies	197,046	1,842,161
Prepaid expenses		19,408
Total current assets		4,150,746
Real estate interests in Florida and related receivables:		
Real estate commissions receivable (Note 1)	1,383,046	
Mortgages receivable (Note 1)	1,529,495	
Interests in undeveloped land, at cost including carrying costs (Note 2)	3,699,446	
Investments in land-owning companies, at cost	369,671	
Land and building, at cost less $3,055 depreciation	24,472	7,006,130
Fixed assets, at cost (Note 3)	2,272,487	
Accumulated depreciation and depletion	1,058,016	1,214,471
Other assets:		
Accounts receivable under a letter of credit issued by an Argentine bank on which payments are due in 1962 and 1963 (Note 4)	196,863	
Notes receivable from stockholders	118,205	
Indemnification receivable from former stockholders of subsidiary (see consolidated statement of capital in excess of par value)	89,000	
Other receivables, less $10,000 allowance for losses	92,220	
Cash surrender value of life insurance	32,670	
Miscellaneous investments	22,775	
Patents, less $5,607 amortization	21,580	
Deposits and deferred charges	11,571	584,884
		$12,956,231

See accompanying notes.

ROYAL AMERICAN CORPORATION

CONSOLIDATED BALANCE SHEET

December 31, 1960

LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current loans and similar debt (Note 4):		
Mortgages on undeveloped land	$ 566,560	
Other secured obligations	1,293,035	
Unsecured obligations	441,255	$ 2,300,850
Accounts payable		551,375
Accrued liabilities		189,463
Federal and state income taxes (Note 5)		165,975
Accounts payable to Graham-Paige Corporation		23,065
Total current liabilities		3,230,728
Deferred accounts payable		87,516
Deferred federal income taxes (Note 5)		1,150,000
Long-term debt (Note 4):		
Mortgages on undeveloped land	$1,471,340	
Other secured obligations	562,846	
Unsecured obligations	601,301	2,635,487
Contingent liability (Note 8)		
Stockholders' equity (Note 6):		
Class A stock, par value 50¢ per share, 2,600,000 shares authorized, 2,423,264 shares outstanding (convertible on a share-for-share basis into common stock)	1,211,632	
Common stock, par value 50¢ per share, 7,000,000 shares authorized, 1,433,566 shares outstanding	716,783	
Capital in excess of par value (see statement)	347,034	
Retained earnings (see statement)	3,577,051	5,852,500
		$12,956,231

See accompanying notes.

ROYAL AMERICAN CORPORATION

CONSOLIDATED STATEMENT OF INCOME

Year ended December 31, 1960

Revenues:		
Sales (primarily pipeline construction and maintenance equipment and supplies)		$5,344,488
Equipment rentals and service revenues		1,730,152
Commissions on sales of real estate (Note 2)		77,472
Profit (loss) on transactions in interests in land		(54,253)
Oil and gas sales		63,627
		7,161,486
Costs and expenses:		
Cost of sales and of equipment rentals and service revenues	$4,895,272	
Selling and administrative expenses excluding oil and gas operations	2,106,857	
Operating and administrative expenses of oil and gas operations	88,817	
Profit sharing contribution (Note 7)	40,750	7,131,696
		29,790
Other income:		
Interest	139,071	
Profit on sale of fixed assets	20,946	160,017
		189,807
Interest and finance charges		204,548
Income (loss) before income taxes		(14,741)
Income taxes (Note 5):		
Federal and state income taxes	28,808	
Reduction in deferred federal income taxes	(26,164)	2,644
Net loss		(17,385)
Special items:		
Profit on sale to Madison Square Garden Corporation of 130,200 shares of its capital stock, less $68,500 income taxes	191,900	
Deduct charges applicable to prior years' operations of a subsidiary:		
Federal income taxes (Note 5) $58,000		
Settlements of litigation 31,000	89,000	102,900
Special items less net loss		$ 85,515
Depreciation and depletion included in costs and expenses	$ 309,288	

See accompanying notes.

ROYAL AMERICAN CORPORATION

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Year ended December 31, 1960

Balance at December 31, 1959	$3,491,536
Net loss for the year	(17,385)
Special items (net)	102,900
Balance at December 31, 1960	$3,577,051

CONSOLIDATED STATEMENT OF CAPITAL IN EXCESS OF PAR VALUE

Year ended December 31, 1960

Balance at December 31, 1959	$ 237,784
Excess of market value at date of issue over par value of 6,750 shares of common stock issued in connection with acquisition of interest in land	20,250
Indemnification receivable from former stockholders of subsidiary, A.E.&R.F. Raidle, Inc., acquired in pooling of interests in 1959; this indemnification results from undisclosed charges applicable to the period of their ownership prior to the pooling	89,000
Balance at December 31, 1960	$ 347,034

See accompanying notes.

ROYAL AMERICAN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended December 31, 1960

NOTE 1. *Real estate commissions and mortgages receivable*

The real estate commissions receivable shown in the consolidated balance sheet are collectible only as payments are received on mortgages by sellers or as real estate is resold by purchasers. The amounts are stated after deducting commissions which are payable to salesmen and others only if the commissions receivable are collected and an allowance of 15% of the net amount has been deducted for possible losses and in recognition of the fact that a large portion of the commissions do not bear interest.

Net commissions receivable and mortgages receivable are due in the following years:

Year	*Commissions*	*Mortgages*
1961	$ 219,012	$ 171,941
1962	$ 226,136	$ 171,941
1963	182,730	164,633
1964	145,314	139,568
1965	156,571	135,628
1966	105,175	126,891
1967-1970	118,573	507,563
Due only when land is resold by purchasers	353,314	—
Past due	95,233	—
In process of foreclosure (including $28,138 accrued interest)	—	283,271
Total non-current	$1,383,046	$1,529,495

NOTE 2. *Interests in undeveloped land*

The undeveloped land in which Royal American's subsidiaries hold interests, ranging from 3⅛% to 100%, is all located in Florida. Most of the properties are subject to mortgages — see Note 4. Interest and taxes are added to the original cost. At December 31, 1960 the total investment of $3,699,446 consisted of $3,041,533 costs of land, $222,089 preliminary development costs on a wholly-owned parcel and $435,824 carrying costs.

NOTE 3. *Fixed assets*

	Cost	*Accumulated depreciation and depletion*	*Net*
Crose-Perrault Equipment Corporation and subsidiary:			
Land	$ 44,193	$ —	$ 44,193
Buildings and improvements	279,150	98,923	180,227
Machinery, equipment, furniture and fixtures	306,794	186,711	120,083
Transportation equipment	146,918	34,811	112,107
Equipment held primarily for rental	1,172,752	649,764	522,988
Graham-Paige Co. of Texas:			
Producing oil and gas leases	15,733	10,385	5,348
Intangible drilling costs	132,781	37,965	94,816
Well and other equipment	72,973	19,187	53,786
Nonproducing leases	60,465	—	60,465
A. E. & R. F. Raidle, Inc.:			
Transportation and office equipment	39,569	20,270	19,299
Nonproducing lease	1,159	—	1,159
	$2,272,487	$1,058,016	$1,214,471

NOTE 4. *Long-term and other debt and assets pledged*

A summary of debt outstanding at December 31, 1960 is as follows:

	Current	*Long-term*
Crose-Perrault Equipment Corporation and subsidiary:		
Loans payable to James Talcott, Inc. under agreement terminating October 1, 1962 with interest and service charges aggregating up to 12% per annum:		
Secured by accounts receivable	$ 897,906	
Secured by inventories and equipment held for rental		$ 450,000
Secured by real estate and equipment	175,588	
Note payable to bank, 6%, secured by current and noncurrent accounts receivable under a letter of credit issued by an Argentine bank	105,557	
Note payable to bank, 6%, secured by fixed assets	60,000	
Notes payable, 5%, due in 1961 and 1962 (joint obligation with Royal American)	250,000	200,000
Other obligations secured by fixed assets	23,419	6,653
Graham-Paige Co. of Texas:		
Notes payable to bank, 5%, secured by oil and gas production	12,000	9,000
A. E. & R. F. Raidle, Inc. and subsidiaries:		
Note payable, 5%, secured by real estate commissions receivable	18,565	97,193
Note payable, 5%, unsecured	121,582	
Notes payable, 6%, unsecured	3,173	3,173
Notes payable, unsecured, due in 1961 and 1962 without interest	66,500	14,700
Note payable, 5%, unsecured, due in 1962 (guaranteed by Royal American)		223,428
6% debentures, due January 1, 1967		160,000
Mortgages payable, 4%, 5% (principally), 6%, 8% and 9%, secured by interests in land or by land sold for which mortgages receivable were taken, due 1960-1977	566,560	1,471,340
Total consolidated indebtedness	$2,300,850	$2,635,487

The long-term portion of the above debt matures as follows:

1962	$1,350,498
1963	405,618
1964	148,786
1965	165,539
1966	93,858
1967-1977	434,809
Payable from profit on resale of land interest	36,379
Total consolidated indebtedness	$2,635,487

NOTE 5. *Federal income taxes—current and deferred*

The federal income tax liability for 1960 has been computed on the basis of filing a consolidated tax return including Royal American and its domestic subsidiaries. A Canadian subsidiary incurred a loss of approximately $100,000 in 1960, which does not serve to reduce the consolidated tax but may be carried forward against taxable income of the subsidiary in future years.

In certain prior years Royal American and certain of the subsidiaries were included in consolidated federal income tax returns filed by Graham-Paige Corporation. These consolidated returns have been examined and settlements made with the Internal Revenue Service through the year 1956. A liability of $58,000 has been provided in connection with a deficiency assessment proposed by the Internal Revenue

Service with respect to A. E. & R. F. Raidle, Inc. covering the period from its inception to the date it became a subsidiary of Royal American in 1959.

Deferred income taxes have been provided in recognition of the following differences between accounting methods used in the financial statements and those used in federal income tax returns: (a) real estate commissions receivable are included in the tax returns only when collected, (b) interest and taxes, added as carrying charges to the cost of interests in undeveloped land, are deducted in tax returns in the year incurred, and (c) certain profits from sales of interests in undeveloped lands are reported in tax returns on the installment basis, the portion attributable to mortgages taken as part of the consideration being reported only as the mortgages receivable are collected.

NOTE 6. *Capital stocks*

Both the Class A and common stocks have one vote per share. Cash dividends may be paid upon the common stock to the extent of 20¢ per share in any one year without payment of such dividends on the Class A stock. After payment of cash dividends in any year of 20¢ per share on the common stock, the Class A and common stocks are to receive an equal amount per share in any further dividends paid in that year. No dividends may be paid in any year on Class A stock until 20¢ per share has been paid on the common stock. No dividends other than in cash may be paid upon the common stock without a similar amount per share being paid on the Class A stock. The Class A stock is convertible on a share for share basis into common stock.

Of the 7,000,000 authorized shares of common stock, 2,423,264 shares are reserved for conversion of the Class A stock outstanding and 250,000 shares are reserved for employee stock option plans described below.

At the inception of Royal American, 150,000 shares of common stock were reserved for the granting of restricted stock options to operating management of subsidiaries, two of whom are directors and officers of Royal American. Of these, options on 110,000 shares of common stock were granted July 1, 1958 at $1.6625 per share, or an aggregate of $182,875, which represented 95% of the market price of $1.75 per share, or an aggregate of $192,500, on that date. Options on 44,000 shares are presently exercisable, and options on 33,000 additional shares are exercisable on July 1, 1961 and on July 1, 1962. The options expire July 1, 1963, or earlier in the event of termination of employment.

On June 4, 1959, a supplemental operating management stock option plan was adopted pursuant to which an additional 100,000 shares of common stock were reserved. Options on 100,000 shares were granted on that date to three employees, one of whom is an officer and director of Royal American, at $4.46875 per share, or an aggregate of $446,875, representing 110% of the average market price of $4.0625 per share on that date, or an aggregate of $406,250. The three optionees were officers of A. E. & R. F. Raidle, Inc. (including a merged predecessor). Options on 25,000 shares are presently exercisable, and options on 25,000 additional shares are exercisable on June 4, 1961 and June 4 of each of the succeeding two years. The options expire June 4, 1964 or earlier in the event of termination of employment.

No options have been exercised.

NOTE 7. *Profit-sharing plan*

The subsidiary, Crose-Perrault Equipment Corporation, has a trusteed profit-sharing plan for its employees under which it contributes 7½% of its net profit before income taxes (as defined in the plan) limited to the amount deductible for federal income tax purposes.

NOTE 8. *Contingent liability*

An individual formerly employed by A. E. & R. F Raidle, Inc. has asserted a claim for commission in amount of $42,778 (payable over a period of ten years) in addition to the liability provided in the consolidated balance sheet. Counsel for A. E. & R. F. Raidle, Inc. are of the opinion that the claim is without merit.

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors and Stockholders,
GRAHAM-PAIGE CORPORATION:

We have examined the accompanying balance sheet and statement of investments of Graham-Paige Corporation at December 31, 1960 and the related statements of income, net realized gain on investments, unrealized appreciation (depreciation) of investments and other assets, and retained earnings for the year then ended, together with the consolidated financial statements of its subsidiary, Royal American Corporation, at December 31, 1960 and for the year then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. The investments held at December 31, 1960 were inspected or confirmed to us by the holders. We were furnished with financial statements of United Supply & Manufacturing Co. at December 31, 1960 and for the two years then ended together with reports of other independent public accountants thereon, and, with respect to the summarized financial information given in Note 3 to the financial statements of Graham-Paige Corporation, assume responsibility for their examination in the same manner as if it had been made by us.

In the accompanying balance sheet of Graham-Paige Corporation, certain investments and the operating property, buildings and equipment of Madison Square Garden together with franchises and player contracts are carried at management's valuations. We are not in a position to express an opinion as to these valuations, but we do not have any information which would cause us to question such valuations. In our opinion, the inclusion of operating property, buildings and equipment in the balance sheet at a valuation in excess of a cost basis is not in conformity with generally accepted accounting principles; however, such valuation of assets by management, as set forth above, is required by law under the Investment Company Act of 1940 to which the Corporation is subject.

In our opinion, based upon our examinations and upon management's valuations of certain investments and other assets referred to above, the accompanying financial statements on pages 4 to 20 present fairly the financial position of Graham-Paige Corporation at December 31, 1960 and the results of its operations for the year then ended and the consolidated financial position of Royal American Corporation and its subsidiaries at December 31, 1960 and the consolidated results of their operations for the year then ended, all in conformity with generally accepted accounting principles except as mentioned in the preceding paragraph, applied on a basis consistent with that of the preceding year.

ARTHUR YOUNG & COMPANY

New York, N. Y.
March 1, 1961

DIVIDENDS ON PREFERRED STOCK

During the year ended December 31, 1960, Graham-Paige Corporation paid dividends totalling $.60 on each share of its Preferred Stock outstanding for the whole year and dividends totalling $.41667 on each share issued incident to the merger with Madison Square Garden Corporation on April 20, 1960.

The Corporation does not believe that any part of these dividends is taxable as ordinary income for federal income tax purposes, subject to the usual audit of the Corporation's returns by the United States Treasury Department.

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1959

GRAHAM-PAIGE CORPORATION

Annual

REPORT

FOR THE YEAR ENDED

DECEMBER THIRTY-FIRST

1959

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BOARD OF DIRECTORS

John J. Bergen, *Chairman*

Enos Curtin
Irving Mitchell Felt
William M. Flook
William M. Jennings
Edwin M. Ost, Jr.
A. Charles Schwartz
D. Fraser Sullivan

OFFICERS

John J. Bergen . . . . . *Chairman of the Board*
Irving Mitchell Felt . . . . . *President*
Edwin M. Ost, Jr. . . . . *Vice President and Treasurer*
William M. Jennings . . . . . *Secretary*
John W. Keenan . . *Assistant Secretary and Assistant Treasurer*

TRANSFER AGENTS

Common Stock

Bankers Trust Company
New York, N. Y.

The Detroit Bank and Trust Company
Detroit, Michigan

Preferred Stock

Irving Trust Company
New York, N. Y.

REGISTRARS

Common Stock

Manufacturers Trust Company
New York, N. Y.

National Bank of Detroit
Detroit, Michigan

Preferred Stock

Manufacturers Trust Company
New York, N. Y.

COUNSEL

Simpson Thacher & Bartlett
New York, N. Y.

AUDITORS

Arthur Young & Company
New York, N. Y.

338.7
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1959

GRAHAM-PAIGE CORPORATION

40 Wall Street

New York 5, New York

March 15, 1960

To The Stockholders:

There are submitted herewith the audited financial statements of the Corporation and its principal subsidiaries, Royal American Corporation and Madison Square Garden Corporation, for their last fiscal years, together with unaudited financial statements of Madison Square Garden for the four months ended December 31, 1959. As set forth therein, the total stockholders' equity of the Corporation at December 31, 1959 was $17,221,429, of which the Common Stockholders' equity was $13,721,429 or $2.26 per share of Common Stock, compared with a total stockholders' equity of $11,448,410 or $1.89 per share of Common Stock at December 31, 1958. The 1959 year-end equity figures are a new high since the Corporation began activities as an investment company in 1949.

In addition to the substantial increases in stockholders' equity described above, the period from January 1, 1959 to date has resulted in the following major developments in the affairs of the Corporation and its subsidiaries:

1. The Corporation has acquired over 80% of the outstanding Capital Stock of Madison Square Garden. As fully described in the Proxy Statement enclosed herewith, it is now proposed to merge Madison Square Garden with and into the Corporation.

2. In order to finance the purchase of certain of the Madison Square Garden stock which it acquired, the Corporation in April 1959 distributed to the public 350,000 shares of its 6% Cumulative Preferred Stock, par value $10 per share, which Preferred Stock is convertible into Common Stock at a present conversion price of $3.33⅓ per share of Common Stock. The proposed merger provides for the issuance of shares of the Preferred Stock to the stockholders of Madison Square Garden.

3. Royal American has made a substantial investment in Florida real estate, principally through the acquisition in 1959 of all of the stock of A. E. & R. F. Raidle, Inc. and The Moldor Corporation.

4. In September 1959, M. J. Crose Manufacturing Co., Inc., wholly owned subsidiary of Royal American, purchased all of the stock of Perrault Equipment Co., Inc. Crose's name was subsequently changed to Crose-Perrault Equipment Corporation.

The foregoing and other matters relating to the Corporation and its subsidiaries are fully described in the Proxy Statement.

Your attention is directed to the statement immediately following this letter concerning the Federal income tax status of dividends paid by the Corporation.

Respectfully submitted,

John J. Bergen
Chairman

Irving Mitchell Felt
President

FEDERAL INCOME TAX STATUS OF DIVIDENDS

During 1959, dividends totalling $.2783 per share were paid on the Corporation's 6% Cumulative Preferred Stock, representing the initial dividend of $.1283 paid July 1 and the quarterly dividend of $.15 paid October 1. Based on the financial statements included herein, the Corporation does not believe that any part of these dividends is taxable as ordinary income.

In 1958, the Corporation distributed as a dividend to the holders of the Corporation's Common Stock one share of Common Stock of Royal American Corporation for each ten shares of the Corporation's Common Stock held. It is believed that the fair market value, for Federal income tax purposes, of the Royal American Common Stock at the time of distribution was $1.875 per share. The Corporation estimates that 70% of the fair market value of such distribution is not taxable as ordinary income to a non-corporate recipient, the remaining 30% being taxable as a dividend.

The amount of dividends not taxable as ordinary income received by each stockholder should be applied as a reduction of the cost basis of the shares upon which such dividends were paid. If the aggregate amount of such dividends should exceed the cost basis of such shares, capital gain will result.

The above statements are subject to the usual audit of the Corporation's returns by the United States Treasury Department.

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

ARTHUR YOUNG & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

165 BROADWAY
NEW YORK 6

The Board of Directors and Stockholders,
GRAHAM-PAIGE CORPORATION:

We have examined the balance sheet and statement of investments of Graham-Paige Corporation at December 31, 1959 and the related statements of income, realized gain on investments, unrealized appreciation of investments and retained earnings for the year then ended, together with the consolidated financial statements of its subsidiary, Royal American Corporation, at and for the year ended December 31, 1959 and the financial statements of Madison Square Garden Corporation at and for the year ended August 31, 1959. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. The investments held at December 31, 1959 were inspected or confirmed to us by the holders. We were furnished with financial statements of United Supply & Manufacturing Co. at December 31, 1959 and for the three years then ended together with reports thereon of other independent public accountants, and, with respect to the summarized financial information given in Note 2 to the financial statements of Graham-Paige Corporation, assume responsibility for their examination in the same manner as if it had been made by us.

In the accompanying balance sheet of Graham-Paige Corporation, investments aggregating $18,265,540 are carried at management's valuations. We are not in a position to express an opinion on these valuations but we have no cause to question their reasonableness.

In our opinion, based upon our examinations and upon the valuations of investments referred to above, the accompanying financial statements on pages 6 to 23 present fairly the financial position of Graham-Paige Corporation at December 31, 1959 and the results of its operations for the year then ended, the consolidated financial position of Royal American Corporation and its subsidiaries at December 31, 1959 and the consolidated results of their operations for the year then ended, and the financial position of Madison Square Garden Corporation at August 31, 1959 and the results of its operations for the year then ended, all in conformity with generally accepted accounting principles applied by the respective companies on a basis consistent with that of the preceding year.

ARTHUR YOUNG & COMPANY

New York, N. Y.
March 15, 1960

GRAHAM-PAIGE CORPORATION

BALANCE SHEET

ASSETS

	December 31, 1959	*Pro forma (A)*
Cash	$ 349,514	$ 952,551
Notes and accounts receivable from Royal American Corporation and subsidiaries	664,237	—
Federal income tax refundable (Note 4)	145,000	145,000
Investments in subsidiaries at management's valuations (cost $8,442,248) (see statement) (Note 1)	15,588,199	15,649,399
Investments in affiliates not controlled at management's valuation or market quotation (cost $3,450,706) (see statement) (Note 2)	4,030,442	4,030,442
Other investments at management's valuations (cost $91,816) (see statement)	187,472	187,472
Office equipment less depreciation, prepaid expenses and other assets	33,128	33,128
	$20,997,992	$20,997,992

LIABILITIES

Notes payable to banks (Note 3)	$ 1,500,000	
Accounts payable and accrued expenses	84,063	
Dividend payable on preferred stock	52,500	
Federal income taxes which might be payable in the event of sale of all investments (Note 4)	2,140,000	
	3,776,563	$ 3,776,563

STOCKHOLDERS' EQUITY

6% cumulative preferred stock, par value $10 per share, 350,000 shares authorized and outstanding (Note 5)		3,500,000	
Common stock, par value $1 per share, 7,990,000 shares authorized, 6,058,169 shares outstanding (Note 5)		6,058,169	
Retained earnings since July 1, 1950 (see statement):			
Undistributed net income	$2,291,635		
Accumulated net realized gain on investments reduced by $2,598,181 added to common stock account	86,346		
	2,377,981		
Less preferred stock commissions and expenses (Note 5)	396,064	1,981,917	
Unrealized appreciation of investments (see statement)		5,681,343	
Total stockholders' equity		17,221,429	17,221,429
		$20,997,992	$20,997,992

(A) The pro forma figures give effect to the purchase in 1960 of 3,060 shares of capital stock of Madison Square Garden Corporation at $20 per share and to the collection of notes and accounts receivable from Royal American Corporation and subsidiaries—see the consolidated balance sheet of Royal American Corporation annexed.

See accompanying notes.

GRAHAM-PAIGE CORPORATION

STATEMENT OF INCOME

Year ended December 31, 1959

Income:			
Interest:			
Subsidiaries			$ 2,400
Affiliate not controlled—Botany Industries, Inc. (Note 2)			43,354
Other			2,717
Patent royalties and equipment rentals received from subsidiary (less $11,910 amortization and depreciation)			48,617
Miscellaneous			405
			97,493
Expenses:			
Compensation—officers		$187,500	
Compensation—others		49,321	
Directors' fees		8,400	
Business investigations, traveling and entertainment		30,254	
Legal and auditing services		36,000	
Other professional services		6,201	
Stockholders' services and reports:			
Transfer agent and registrar	$65,000		
Dividend disbursing	2,177		
Stockholders' meetings, reports and other corporate expense	56,670	123,847	
Office rent		27,110	
Office expenses, insurance, contributions and miscellaneous		35,735	
Taxes other than federal income tax		(93)	
Interest on long-term debt		356	
Other interest		34,563	
Administration charge to subsidiary		(40,000)	499,194
Income (loss) before federal income tax refundable			(401,701)
Federal income tax refundable through loss carryback (Note 4)			145,000
Net income (loss)			$ (256,701)
Net realized gain on investments (see statement)			$ 4,602
Net increase in unrealized appreciation of investments not included above (less increase in provision for future federal income taxes) (see statement)			$3,071,089

See accompanying notes.

GRAHAM-PAIGE CORPORATION

STATEMENT OF REALIZED GAIN ON INVESTMENTS

Year ended December 31, 1959

5% convertible subordinated notes of Royal American Corporation (redeemed):	
Proceeds	$1,333,000
Cost	1,333,000
Realized gain	—
Securities of unaffiliated issuers:	
Proceeds	10,602
Cost	6,000
Net realized gain on investments	$ 4,602

STATEMENT OF UNREALIZED APPRECIATION OF INVESTMENTS

(Excess of market quotations or management's valuations over cost)

Year ended December 31, 1959

	Balance Dec. 31, 1958	*Increase (decrease) in 1959*	*Balance Dec. 31, 1959*
Securities of subsidiaries	$3,071,023	$4,074,928	$7,145,951
Securities of affiliates not controlled	510,986	68,750	579,736
Securities of unaffiliated issuers	(500)	500	—
Patents and rental equipment	108,745	(13,089)	95,656
	3,690,254	4,131,089	7,821,343
Less federal income tax which might be payable in the future in the event of sale of all investments (Note 4)	1,080,000	1,060,000	2,140,000
Total	$2,610,254	$3,071,089	$5,681,343

See accompanying notes.

GRAHAM-PAIGE CORPORATION

STATEMENT OF RETAINED EARNINGS

(Accumulated since July 1, 1950)

Year ended December 31, 1959

	Undistributed net income	*Accumulated net realized gain on investments*	*Total*
Balance December 31, 1958	$2,698,243	$2,679,925	$5,378,168
Net income (loss)	(256,701)	—	(256,701)
Net realized gain on investments	—	4,602	4,602
	2,441,542	2,684,527	5,126,069
Deduct:			
Cash dividends on 6% cumulative preferred stock since date of issue — $.4283 per share	149,907	—	149,907
Transferred to common stock account (together with $2,854,171 from capital in excess of stated value) upon change from stated value of 10¢ per share to par value of $1 per share (Note 5)	—	2,598,181	2,598,181
	149,907	2,598,181	2,748,088
Balance December 31, 1959	$2,291,635	$ 86,346	2,377,981
Less commissions and expenses in connection with sale and issuance of 350,000 shares of 6% cumulative preferred stock in 1959 (Note 5)			396,064
Retained earnings less preferred stock expenses at December, 31, 1959			$1,981,917

See accompanying notes.

GRAHAM-PAIGE CORPORATION

INVESTMENTS

December 31, 1959

SUBSIDIARIES (Note 1)	*Value as carried in balance sheet*
Royal American Corporation:	
2,423,264 shares of class A stock, at management's valuation (cost $3,104,075)	$ 9,693,056
2,131 shares of common stock, at market quotation (cost $2,730)	9,323
Madison Square Garden Corporation:	
285,291 shares of capital stock, at management's valuation (cost $5,267,120)	5,705,820
Graham-Paige Realty Corporation:	
250 shares (100%) of capital stock, at management's valuation (cost $68,323)	180,000
Total investments in subsidiaries (cost $8,442,248)	$15,588,199

AFFILIATES NOT CONTROLLED	
Botany Industries, Inc. (Note 2):	
200,000 shares of common stock, at over-the-counter market bid quotation	$ 1,575,000
25,000 shares of common stock subject to option at option price	100,000
$1,133,404 4% notes, due after May 1, 1962	1,133,404
Accrued interest, due after May 1, 1962	115,788
	2,924,192
Less reduction to management's valuation	425,000
Total investment in Botany Industries, Inc., at management's valuation (cost $2,149,192)	2,499,192
Hotel Corporation of America:	
250,000 shares of common stock, at market quotation (cost $1,301,514)	1,531,250
Total investments in affiliates not controlled (cost $3,450,706)	$ 4,030,442

OTHER INVESTMENTS	
Patents and rental equipment used by subsidiary, at management's valuation (cost, less amortization and depreciation, $54,344)	$ 150,000
Interest in undeveloped oil leases and oil payment, at cost	25,972
$11,500 Zoro Corporation, 5% note, due on demand, at cost	11,500
Total other investments (cost $91,816)	$ 187,472

See accompanying notes.

GRAHAM-PAIGE CORPORATION

NOTES TO FINANCIAL STATEMENTS

Year ended December 31, 1959

NOTE 1. *Subsidiaries*

Royal American Corporation ("Royal American") was organized by the Corporation in March 1958 and on April 1, 1958 all of the outstanding stocks of three former subsidiaries, together with $2,666,000 of receivables from the subsidiaries, were transferred to Royal American in exchange for 2,423,264 shares of its class A stock, 605,816 shares of common stock and $2,666,000 of convertible subordinated notes. The notes were redeemed by Royal American in 1958 and 1959. The aggregate of the costs of the stocks of the three subsidiaries was assigned as the cost of the class A and common stocks of Royal American.

In June 1958, the Corporation distributed as a dividend 603,685 shares of the common stock of Royal American (and $3,892 cash in lieu of fractional shares). In 1959, Royal American issued 821,000 shares of its common stock in acquisition of subsidiaries. At December 31, 1959, the Corporation, accordingly, owned 63% of the voting stock of Royal American.

During 1959 the Corporation purchased 285,291 shares of capital stock of Madison Square Garden Corporation ("Madison Square Garden") and Royal American purchased an additional 130,250 shares. In 1960 the Corporation purchased an additional 3,060 shares at a cost of $61,200. Madison Square Garden in 1959 reacquired from other stockholders 73,600 shares and on January 2, 1960 reacquired 130,200 shares from Royal American. At December 31, 1959 the Corporation owned 58.2% of the outstanding capital stock of Madison Square Garden and Royal American owned 26.6%. After the repurchase of shares from Royal American on January 2, 1960 and the additional purchases by the Corporation in 1960, the Corporation owned 80% of the outstanding stock of Madison Square Garden. A proposal for the merger of Madison Square Garden with and into the Corporation is expected to be voted upon at the next Annual Meeting of Stockholders.

The assets of Graham-Paige Realty Corporation, all of whose capital stock is owned by the Corporation, consist principally of interests in undeveloped land in Los Angeles County, California.

The values at which the investments in subsidiaries are carried in the balance sheet exceed the equity in net assets as shown in the financial statements of the subsidiaries at December 31, 1959 (and on a pro forma basis giving effect to the reacquisition of shares by Madison Square Garden on January 2, 1960 and additional purchases by the Corporation) by the following amounts:

	December 31, 1959	*Pro forma*
Royal American Corporation	$6,140,360	$6,017,329
Madison Square Garden Corporation	3,386,344	4,701,644
Graham-Paige Realty Corporation	114,413	114,413

Financial statements for Royal American and Madison Square Garden are annexed.

NOTE 2. *Affiliates not controlled*

In March 1957, the Corporation sold to Botany Industries, Inc. ("Botany") all the outstanding capital stock of United Supply & Manufacturing Co. ("United Supply") for a consideration which included 225,000 shares of Botany's common stock (25,000 of which shares are subject to options exercisable at $4 per share by the operating management of United Supply) and Botany's 4% note for $950,000. In the sale the Corporation was relieved of obligation for the balance of the original purchase price for the United Supply stock, amounting to $2,896,999 at the date of sale, but was obligated, if requested by Botany, to pay interest on the unpaid balance in excess of $1,000,000 and to pay a related account payable of $47,425, receiving therefor additional 4% notes from Botany. Through December 31, 1959 the Corporation has paid interest of $160,979 and $22,425 of the account payable, receiving additional notes in the same amount.

Interest on the Botany 4% notes from March 1957, or later date of issue, to May 1, 1962 is payable on the latter date (or earlier under certain conditions) and thereafter semi-annually. Principal payments on the notes are likewise to commence on May 1, 1962 (or earlier in the event of earlier liquidation by Botany of the balance of the original purchase price). The principal is thereafter payable to the extent of 75% of the net income after taxes of United Supply with any remaining balance, subject to the com-

ments below, payable on December 31, 1970. The balance of the original purchase price, amounting to $2,272,522 at December 31, 1959, is payable to the original sellers by Botany in 1960 to the extent of 75% of United Supply's income before federal income taxes for 1959, in 1961 to the extent of 50% of income before federal income taxes for 1960, and the balance in 1962. In the event of default and sale of the collateral security mentioned in the next paragraph Botany has no liability for payment of any deficiency either to the original sellers or to the Corporation.

The outstanding capital stock of United Supply is pledged initially to secure the $2,272,522 unpaid balance of the original purchase price and secondarily to secure the 4% notes and accrued interest payable to the Corporation, amounting to $1,249,192 at December 31, 1959. A summary statement of the financial position of United Supply at December 31, 1959 and the results of its operations for the three years then ended follows:

ASSETS

	Dec. 31, 1959
Current assets:	
Cash	$ 433,131
Receivables	3,165,379
Inventories	2,612,744
Prepaid expenses	15,731
Total current assets	6,226,985
Long-term receivables and other assets	564,991
Fixed assets, less $479,646 depreciation	261,952
	$7,053,928

LIABILITIES, CAPITAL STOCK AND RETAINED EARNINGS

Current liabilities:	
Notes payable	$ 404,000
Accounts payable and accrued expenses	1,946,608
Total current liabilities	2,350,608
Long-term debt	838,000
Capital stock and retained earnings	3,865,320
	$7,053,928

INCOME

	1957	*1958*	*1959*
Sales	$21,457,186	$12,261,721	$17,517,008
Costs and expenses	20,624,548	12,310,420	17,240,690
	832,638	(48,699)	276,318
Taxes on income	103,657	(11,000)	141,500
Net income (loss)	728,981	(37,699)	134,818
Dividends paid (applied by Botany as payment on original purchase price — additional payment of $77,742 also subsequently made by Botany)	—	546,735	—
Increase (decrease) in retained earnings	$ 728,981	$ (584,434)	$ 134,818

NOTES TO FINANCIAL STATEMENTS — Continued

Year ended December 31, 1959

NOTE 3. *Notes payable to banks*

The notes payable to banks, which were originally due February 26, 1960 but have been extended to June 1, 1960, place certain restrictions upon the Corporation including limitations upon making additional investments or selling investments now owned.

NOTE 4. *Federal income taxes*

The Corporation does not qualify to be taxed as a "regulated investment company" under Subchapter M of the Internal Revenue Code, and hence is subject to federal income taxes applicable to corporations generally.

The Internal Revenue Service has examined the consolidated income tax returns of the Corporation and its subsidiaries through 1956. A consolidated federal income tax return will be filed for 1959 including therein Royal American and its subsidiaries only through June 23, 1959. Federal income tax refundable as a result of carrying back the tax loss for 1959 to 1956 has been allocated $145,000 to the Corporation and $205,000 to Royal American and its subsidiaries based on the relative 1959 tax losses of each includible in the consolidated return.

A provision has been made in the balance sheet (deducted from unrealized appreciation) for federal income tax (computed at the rate applicable to long-term capital gains) which might be payable in the event of realization of unrealized appreciation of investments through sale of the related assets. The provision takes into account the reduced basis for tax purposes of the investment in Royal American resulting from losses availed of in consolidated tax returns, which basis is approximately $2,380,000 as compared with cost of $3,106,805 shown in the financial statements.

NOTE 5. *Capital stock*

In April 1959, the Corporation sold 350,000 shares of 6% cumulative preferred stock, par value $10 per share, realizing $3,103,936 after commissions and expenses. The preferred stock is convertible into common stock on the basis of $3.33⅓ per share for the common stock through April 30, 1962, $3.83⅓ per share thereafter through April 30, 1965, and $4.33⅓ per share thereafter through April 30, 1969. Of the authorized but unissued common stock, 1,050,000 shares are initially reserved for conversion of the preferred stock.

In April 1959, the common stock of the Corporation was changed to a par value of $1 per share from the previous no par value with a stated value of 10¢ per share. In this connection the capital in excess of stated value of $2,854,171 was eliminated and accumulated net realized gains were reduced by $2,598,181.

SUPPLEMENTAL INFORMATION

Year ended December 31, 1959

Remuneration of directors or officers:

The following sets forth the aggregate remuneration for services in all capacities directly or indirectly paid or set aside by Graham-Paige Corporation and its subsidiaries during the year ended December 31, 1959 to directors or officers of the Corporation: all directors for regular compensation, $16,100; all directors for special compensation, none; all officers, $240,982; Simpson Thacher & Bartlett, of which firm William M. Jennings, an officer and director, is a partner, for legal fees, $77,000; Bache & Co., of which firm A. Charles Schwartz, a director, is a partner, for underwriting commission on the sale of preferred stock, $350,000, of which $115,825 was retained by Bache & Co. after allowances to other dealers, and for commissions on sale of securities, $8,132.

Purchases and sales of investment securities:

The aggregate cost of purchases and proceeds of sales of investment securities by the Corporation during the year ended December 31, 1959 were $5,319,596 and $1,343,602, respectively, including $1,333,000 proceeds from redemption of 5% convertible subordinated notes of Royal American Corporation.

ROYAL AMERICAN CORPORATION

CONSOLIDATED BALANCE SHEET

ASSETS

	December 31, 1959	*Pro forma (A)*
Current assets:		
Cash	$ 99,925	$ 946,988
Accounts and notes receivable, less $81,500 allowance for losses (Note 6)	1,426,232	1,426,232
Real estate commissions receivable (Note 2)	284,406	284,406
Mortgages receivable (Note 2)	173,869	173,869
Notes receivable from stockholders	111,710	111,710
Federal and Canadian income taxes refundable (Note 7)	245,345	245,345
Inventories, at or below cost on first-in, first-out basis not in excess of sales or replacement market (Note 6):		
Parts and equipment held for sale	1,131,692	1,131,692
Equipment held for sale or rental	815,270	815,270
Work in process, materials and supplies	175,560	175,560
Prepaid expenses	29,698	29,698
Total current assets	4,493,707	5,340,770
Investment in Madison Square Garden Corporation, 130,250 shares of capital stock, at cost (130,200 shares were redeemed on January 2, 1960 for $2,604,000) (Note 3)	2,344,500	900
Real estate interests in Florida (Note 4):		
Interests in land, at cost including certain development and carrying costs	7,013,520	7,013,520
Investments in land owning companies, at cost	212,375	212,375
Land and building, at cost less $2,206 depreciation	25,322	25,322
Other investments and receivables not current:		
Real estate commissions receivable (Note 2)	1,446,189	1,446,189
Mortgages receivable (Note 2)	398,728	398,728
Letter of credit issued by an Argentine bank on which payments are due 1961-1963	306,115	306,115
Other (less $10,000 allowance for losses)	79,978	79,978
Fixed assets, at cost less $983,309 accumulated depreciation and depletion (Note 5)	1,407,412	1,407,412
Deferred charges	53,332	53,332
	$17,781,178	$16,284,641

(A) The pro forma figures give effect to the sale on January 2, 1960 to Madison Square Garden Corporation of 130,200 shares of the capital stock of that corporation at a price of $20 per share and the use of part of the proceeds to liquidate notes payable to banks, $1,092,700, and notes and accounts payable to Graham-Paige Corporation, $664,237.

See accompanying notes.

ROYAL AMERICAN CORPORATION

CONSOLIDATED BALANCE SHEET

LIABILITIES, CAPITAL AND RETAINED EARNINGS

	December 31, 1959	*Pro forma (A)*
Current liabilities:		
Current loans and similar debt (Note 6):		
Mortgages and other secured obligations	$ 1,578,105	$ 1,578,105
Unsecured obligations	1,494,634	401,934
Accounts payable and accrued expenses	953,508	953,508
Federal, Canadian and state income taxes (Note 7)	92,484	157,584
Notes and accounts payable to Graham-Paige Corporation	664,237	—
Total current liabilities	4,782,968	3,091,131
Long-term debt (excluding current portion) (Note 6):		
Mortgages and other secured obligations	5,055,904	5,055,904
Unsecured obligations	1,111,782	1,111,782
Deferred federal income taxes (Note 7)	1,176,164	1,176,164
Contingent liabilities (Note 9)		
Capital and retained earnings:		
Class A stock, par value 50¢ per share, 2,600,000 shares authorized, 2,423,264 shares outstanding (Note 8)	1,211,632	1,211,632
Common stock, par value 50¢ per share, 7,000,000 shares authorized, 1,426,816 shares outstanding (Note 8)	713,408	713,408
Capital in excess of par value (see statement)	237,784	237,784
Retained earnings (see statement)	3,491,536	3,686,836
Total capital and retained earnings	5,654,360	5,849,660
	$17,781,178	$16,284,641

(A) The pro forma figures give effect to the sale on January 2, 1960 to Madison Square Garden Corporation of 130,200 shares of the capital stock of that corporation at a price of $20 per share and the use of part of the proceeds to liquidate notes payable to banks, $1,092,700, and notes and accounts payable to Graham-Paige Corporation, $664,237.

See accompanying notes.

ROYAL AMERICAN CORPORATION

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

Year ended December 31, 1959

(Note 1)

Revenues:		
Sales (primarily pipeline construction and maintenance equipment and supplies)		$4,874,999
Equipment rentals and service revenues		1,091,967
Commissions on sales of real estate (Notes 2 and 7)		806,149
Profits on sales of interests in land (Note 7)		82,461
Oil and gas sales		47,189
		6,902,765
Costs and expenses:		
Cost of sales and of equipment rentals and service revenues	$4,201,752	
Selling and administrative expenses excluding oil and gas operations	2,457,647	
Operating and administrative expenses of oil and gas operations	110,404	
Dry hole cost (Note 5)	602,038	7,371,841
		(469,076)
Other income:		
Interest	139,513	
Profit on sales of fixed assets	9,378	
Miscellaneous	3,255	152,146
		(316,930)
Interest and finance charges (excluding interest capitalized — Notes 4 and 7)		296,882
Income (loss) before income taxes		(613,812)
Income taxes (Note 7):		
Federal (credit due to loss carrybacks, $225,000, and excess provision for previous year, $20,302)	(245,302)	
Canadian and state	(28,135)	
Deferred federal income taxes	161,640	(111,797)
Net income (loss)		(502,015)
Retained earnings December 31, 1958		3,993,551
Retained earnings December 31, 1959		$3,491,536
Depreciation, depletion and amortization included in costs and expenses	$ 242,007	

See accompanying notes.

ROYAL AMERICAN CORPORATION

CONSOLIDATED STATEMENT OF CAPITAL IN EXCESS OF PAR VALUE

Year ended December 31, 1959

Balance December 31, 1958	$ —
Excess of par or stated values of capital stocks of A. E. & R. F. Raidle, Inc. over par value of 771,000 shares of common stock of Royal American Corporation issued in exchange therefor (Note 1)	22,699
Excess of market value over par value of 50,000 shares of common stock of Royal American Corporation issued in exchange for the capital stock of The Moldor Corporation (Note 1)	225,000
Expenses of issuance and listing above shares of common stock	(9,915)
Balance December 31, 1959	$237,784

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended December 31, 1959

NOTE 1. *Principles of consolidation*

All subsidiaries are included in the consolidated financial statements.

Royal American Corporation ("Royal American"), which was organized by Graham-Paige Corporation ("Graham-Paige"), acquired from the latter on April 1, 1958 all the outstanding capital stocks of its subsidiaries, M. J. Crose Manufacturing Co., Inc. ("Crose"), R. Olsen Oil Company ("Olsen Oil") and Graham-Paige Co. of Texas. In exchange Royal American issued to Graham-Paige 2,423,264 shares of its Class A stock and 605,816 shares of common stock. It also issued $2,666,000 convertible subordinated notes equivalent to the amount of the indebtedness of these subsidiaries transferred: these notes were redeemed in 1958 and 1959. In June 1959, Royal American issued 771,000 shares of its common stock in exchange for all of the outstanding capital stocks of A. E. & R. F. Raidle, Inc.

The transactions described above have been treated for accounting purposes as poolings of interest, and accordingly the consolidated statement of income includes the operations of all subsidiaries for the year and the assets and liabilities have been combined at the amounts shown by the books of the subsidiaries, the investments in these subsidiaries being carried at the amounts of net assets so represented.

In September 1959, Royal American acquired all the outstanding capital stock of The Moldor Corporation in exchange for 50,000 shares of its common stock, and Crose (now named Crose-Perrault Equipment Corporation) acquired all the outstanding stock and $419,005 notes of Perrault Equipment Co., Inc. ("Perrault") in exchange for a cash payment of $209,218 and notes of $700,000 signed jointly by Crose and Royal American. One note due September 1, 1960 in amount of $250,000 is convertible at the option of the holder into 50,000 shares of common stock of Royal American. The market value of the common stock issued for The Moldor Corporation exceeded the net assets shown by the books of that company at the date of acquisition by $187,037, which amount has been added in consolidation to interests in land, this being the principal asset of that company. The consideration paid for Perrault exceeded net assets shown by its books at the date of acquisition by $206,862. This excess has been added to fixed assets, principally to equipment held for rental. Perrault was liquidated into Crose on December 31, 1959.

Assets, liabilities, income and expenses of Crose's consolidated Canadian subsidiary have been converted from Canadian to U. S. dollars at par. Intercompany profits on sales to the Canadian subsidiary remaining in inventory have been eliminated in consolidation.

NOTE 2. *Real estate commissions and mortgages receivable*

The real estate commissions shown in the consolidated balance sheet are collectible only as payments are received on mortgages by sellers or as real estate is resold by purchasers. The amounts shown as receivable are stated after deducting commissions which are payable to salesmen and others only if the commissions receivable are collected. An allowance of approximately 15% of the net amount has been deducted for possible losses and in recognition of the fact that a large portion of the commissions do not bear interest; this allowance has been deducted in total from the noncurrent portion of the receivables in the balance sheet. Net commissions receivable and mortgages receivable are due in the following years:

	Commissions	*Mortgages*
1960	$ 284,406	$173,869
1961	$ 277,741	$173,987
1962	275,278	107,354
1963	222,900	39,472
1964	166,346	12,677
1965	181,002	8,738
1966	108,135	—
1967-1970	41,298	—
Due only when land is resold by purchasers	444,321	—
Past due	36,461	56,500
	1,753,482	
Less allowance	307,293	
Total noncurrent	$1,446,189	$398,728

NOTE 3. *Investment in Madison Square Garden Corporation*

In 1959, Royal American purchased 130,250 shares of the capital stock of Madison Square Garden Corporation at a price of $18 per share. On January 2, 1960, 130,200 of these shares were purchased by Madison Square Garden at a price of $20 per share, the price at which a joint offer to all other stockholders was made in October 1959 by Graham-Paige and Madison Square Garden to purchase shares of capital stock of the latter. Proceeds of this sale were used to pay bank loans obtained in connection with the purchase and to repay advances made by Graham-Paige as reflected in the "Pro forma" column of the balance sheet.

NOTE 4. *Real estate interests in Florida*

The real estate interests in Florida represent investments by A. E. & R. F. Raidle, Inc. and The Moldor Corporation primarily in undeveloped lands, all of which are subject to mortgages. The interest in one substantial parcel is 100%, that in three others 50%, and in others various lesser percentages. Interest and taxes are added to the original cost. At December 31, 1959 the total investment of $7,013,520 consisted of $6,115,417 costs of land, $284,777 development costs on the wholly-owned parcel and $613,326 carrying costs.

Investments have also been made in capital stocks, $158,000 and indebtedness $54,375 of other land owning companies.

NOTE 5. *Fixed assets*

	Cost	*Accumulated depreciation and depletion*	*Net*
Crose-Perrault Equipment Corporation:			
Land	$ 47,495	$ —	$ 47,495
Buildings and improvements	309,820	97,109	212,711
Machinery, equipment, furniture and fixtures	302,998	160,503	142,495
Transportation equipment	125,892	94,637	31,255
Equipment held primarily for rental	1,225,548	543,097	682,451
Graham-Paige Co. of Texas:			
Producing oil and gas leases	15,733	9,482	6,251
Intangible drilling costs	124,179	27,430	96,749
Well and other equipment	77,036	14,993	62,043
Nonproducing leases	72,319	—	72,319
A. E. & R. F. Raidle, Inc.:			
Transportation and office equipment	89,701	36,058	53,643
	$2,390,721	$983,309	$1,407,412

The drilling of a deep test well by Graham-Paige Co. of Texas commenced in October 1958 was discontinued in March 1959 at a depth of over 14,000 feet. Costs of $602,038 incurred in drilling the well, and in attempting without success to obtain commercial production at various higher levels, have been written off.

NOTE 6. *Long-term and other debt and assets pledged*

A summary of debt outstanding at December 31, 1959 is as follows:

	Current	*Long-term*
Notes payable to banks, 5% (paid in January 1960)	$1,092,700	
Crose-Perrault Equipment Corporation and subsidiary:		
Loans payable to James Talcott, Inc. under agreement terminating April 1, 1961 with interest and service charges aggregating up to 12½% per annum:		
Secured by accounts receivable	684,894	
Secured by inventories and equipment held for rental		$ 450,000
Secured by real estate and equipment	109,980	201,188
Note payable to bank, 6%, secured by accounts receivable		105,557
Notes payable, 5%, due $250,000 in 1960 and 1961 and balance in 1962 (joint obligation with Royal American)	250,000	450,000
4½% purchase obligation secured by equipment held primarily for rental, payable quarterly in amounts equal to 25% of rentals, plus stated amounts for equipment sold, maturity in March 1962	60,000	52,401
5% unsecured notes	40,000	
5½% unsecured notes	25,000	
Other obligations secured by fixed assets	26,947	13,352
Graham-Paige Co. of Texas:		
Notes payable to bank, 5%, secured by oil and gas production	24,000	16,000
A. E. & R. F. Raidle, Inc. and subsidiary and The Moldor Corporation:		
Note payable to bank, 6%, secured by mortgage receivable	67,492	
Contract payable to bank secured by equipment	10,228	5,114
Note payable, 10%, secured by capital stock of a land owning company and by life insurance policy	60,000	
Contract payable, secured by land interest due $4,500 annually without interest	4,500	13,500
Notes payable, 6%, unsecured	26,934	
Note payable, 5%, unsecured, due in 1962 (guaranteed by Royal American)		239,000
Note payable, unsecured, due in 1961 without interest		121,582
Notes payable, unsecured, due in 1961 and 1962 without interest		93,200
6% debentures, due January 1, 1967		208,000
Mortgages payable, 4%, 5% (principally), 5½%, 8% and 9%, secured by interests in land or by land sold for which mortgages receivable were taken, due in:		
1960	590,064	
1961		867,663
1962		533,031
1963		507,291
1964		246,097
1965		318,226
1966-1977		1,690,105
Payable from profits on resale of land interest		36,379
Total consolidated indebtedness	$3,072,739	$6,167,686

NOTE 7. *Federal income taxes*

Over 80% of the outstanding stock of Royal American was owned by Graham-Paige through June 23, 1959 (prior to the acquisition of the capital stock of A. E. & R. F. Raidle, Inc.). Royal American and its subsidiaries will be included through June 23, 1959 in a consolidated federal income tax return to be filed by Graham-Paige for 1959. Of the federal income tax refundable based on carrying back the tax loss to be shown in the consolidated return of Graham-Paige for 1959, $205,000 has been allocated to Royal American and its subsidiaries based on the relative tax losses, of which approximately $140,000 resulted from the dry hole cost written off in 1959. A. E. & R. F. Raidle, Inc. also has a credit of $20,000 applicable to the period ended June 23, 1959. No federal income tax provision is required based on filing a consolidated return for Royal American and its subsidiaries for the period from June 24, 1959 through December 31, 1959.

Provisions for deferred federal income taxes have been made in recognition of the following items handled in the financial statements on a different basis than in tax returns:

(a) Real estate commissions receivable (less commissions payable therefrom) are not included in tax returns until collected.

(b) Interest and taxes, added as carrying costs to interests in land, are deducted in tax returns in the year incurred. (A portion of carrying costs incurred by the subsidiary of A. E. & R. F. Raidle, Inc. have not served to reduce federal income taxes, and hence no deferred income tax has been provided with respect to such portion.)

(c) Certain of the profits on sales of interests in land are included in tax returns on an installment basis, the portion attributable to mortgages receivable taken in connection with such sales not being included.

NOTE 8. *Capital stock*

Both the Class A and Common stocks have one vote per share. Cash dividends may be paid upon the Common stock to the extent of 20¢ in any one year without payment of such dividends on the Class A stock. After payment of cash dividends in any year of 20¢ per share on the Common stock, the Class A and Common stocks are to receive an equal amount per share in any further dividends paid in that year. No dividends may be paid in any year on Class A stock until 20¢ per share has been paid on the Common stock. No dividends other than in cash may be paid upon the Common stock without a similar amount per share being paid on the Class A stock.

The Class A stock is convertible commencing May 1, 1960 on a share for share basis into Common stock. Of the 7,000,000 authorized shares of Common stock, 2,423,264 shares are reserved for conversion of the Class A stock outstanding.

At the inception of Royal American, 150,000 shares of Common stock were reserved for the granting of restricted stock options to operating management of subsidiaries, two of whom are directors and officers of Royal American. Of these, options on 110,000 shares of Common stock were granted July 1, 1958 at $1.6625 per share, or an aggregate of $182,875, which represented 95% of the market price of $1.75 per share, or an aggregate of $192,500, on that date. Options on 44,000 shares may be exercised after two years from July 1, 1958, on 33,000 shares after three years and on 33,000 shares after four years. The options expire July 1, 1963, or earlier in the event of termination of employment.

On June 4, 1959, a supplemental operating management stock option plan was adopted pursuant to which an additional 100,000 shares of Common stock were reserved. Options on 100,000 shares were granted on that date to three employees, one of whom is an officer and director of Royal American, at $4.46875 per share, or an aggregate of $446,875, representing 110% of the average market price of $4.0625 per share on that date, or an aggregate of $406,250. The three optionees were officers of A. E. & R. F. Raidle, Inc. (including a merged predecessor). Options on 25,000 shares may be exercised on June 4, 1960 and on 25,000 additional shares on June 4 of each of the succeeding three years. The options expire June 4, 1964 or earlier in the event of termination of employment.

Additionally, 50,000 shares of Common stock have been reserved for the conversion of the joint (Crose and Royal American) 5% convertible note in the amount of $250,000 mentioned in Note 1 issued in connection with the acquisition by Crose of Perrault.

NOTE 9. *Contingent liabilities*

A. E. & R. F. Raidle, Inc. is defendant in three lawsuits in which the plaintiffs claim a total of $280,000 as participations in real estate commissions.

MADISON SQUARE GARDEN CORPORATION

BALANCE SHEETS

ASSETS

	August 31, 1959	*December 31, 1959* (Unaudited)	*Pro forma (A)* (Unaudited)
Current assets:			
Cash	$ 303,672	$4,036,629	$1,382,629
Marketable securities, at cost (Market value: August 31, $2,579,195; December 31, $378,851)	2,235,112	233,088	233,088
Accounts receivable, less $5,000 allowance for losses	74,196	110,239	110,239
Inventories of concession merchandise and operating supplies, at lower of cost or market	36,633	60,335	60,335
Prepaid expenses	221,782	218,706	218,706
Total current assets	2,871,395	4,658,997	2,004,997
Investments in and advances to wholly-owned subsidiaries, at cost less $200,000 allowance for loss (Note 1)	60,713	93,367	93,367
Property, buildings and equipment, at cost (Note 2):			
Land	1,723,580	1,723,580	1,723,580
Buildings and equipment	7,418,708	7,446,332	7,446,332
	9,142,288	9,169,912	9,169,912
Less accumulated depreciation	5,237,039	5,328,942	5,328,942
	3,905,249	3,840,970	3,840,970
Unamortized loan discount and expense	—	137,931	137,931
Deferred charges and other assets	42,174	39,817	39,817
	$6,879,531	$8,771,082	$6,117,082

LIABILITIES, CAPITAL AND RETAINED EARNINGS

Current liabilities:			
Note payable to bank	$ 200,000	$ —	$ —
Accounts payable and accrued expenses	492,987	663,826	663,826
Federal income taxes	420,875	327,875	327,875
Advance sales of tickets, advertising space, etc.	130,167	489,629	489,629
Total current liabilities	1,244,029	1,481,330	1,481,330
6% mortgage note payable, due December 14, 1962	—	3,000,000	3,000,000
Public liability self-insurance reserve (Note 3)	297,000	306,761	306,761
Contingent liabilities (Note 4)			
Capital and retained earnings:			
Capital stock, no par value, 603,100 shares authorized, 563,500 shares outstanding (including shares held in treasury) — 359,700 shares pro forma	1,992,987	1,992,987	1,272,187
Retained earnings	3,345,515	3,462,004	56,804
	5,338,502	5,454,991	1,328,991
Less cost of capital stock held in treasury — 73,600 shares	—	1,472,000	—
Total capital and retained earnings	5,338,502	3,982,991	1,328,991
	$6,879,531	$8,771,082	$6,117,082

(A) The pro forma figures give effect to the purchase on January 2, 1960 from Royal American Corporation of 130,200 shares of capital stock of Madison Square Garden Corporation at a price of $20 per share, to the retirement of these shares together with the 73,600 shares previously acquired, and to the settlement of a suit in February 1960 for $50,000—see Note 4.

See accompanying notes.

MADISON SQUARE GARDEN CORPORATION

STATEMENT OF INCOME

	Year ended August 31, 1959	*Four months ended December 31, 1959 Note 5* (Unaudited)
Revenue from attractions:		
Operating revenue	$5,025,556	$2,239,163
Concession sales	1,508,914	505,181
Rental income—outside	887,916	219,120
Rental income—subsidiary	130,000	—
Broadcasting and television income	511,647	184,269
	8,064,033	3,147,733
Direct costs of attractions:		
Direct operating expenses	3,906,067	1,910,181
Cost of concession sales	1,178,381	396,278
	5,084,448	2,306,459
Gross profit from attractions	2,979,585	841,274
Income from other operations	163,777	53,789
Gross profit from operations	3,143,362	895,063
General operating and administrative expenses:		
Operating and administrative expenses, exclusive of those shown below	1,351,327	497,595
Depreciation	308,499	91,903
Repairs and maintenance	180,897	35,616
Real estate taxes	233,722	78,369
Taxes other than real estate and federal income taxes	165,905	45,012
	2,240,350	748,495
Income from operations	903,012	146,568
Other income:		
Interest and dividends from marketable securities	87,905	9,385
Gain (loss) on sale of securities (identified certificate cost)	—	64,356
Sundry	(293)	2,927
	87,612	76,668
	990,624	223,236
Interest expense	6,365	11,747
Income before federal income taxes and allowance for loss on investment in subsidiary	984,259	211,489
Federal income tax	480,000	95,000
Income before allowance for loss on investment	504,259	116,489
Allowance for loss on investment in subsidiary, International Boxing Club of New York, Inc., less $100,000 reduction in federal income tax	100,000	—
Net income	$ 404,259	$ 116,489

See accompanying notes.

MADISON SQUARE GARDEN CORPORATION

STATEMENT OF RETAINED EARNINGS

	Year ended August 31, 1959	*Four months ended December 31, 1959 (Unaudited)*
Retained earnings at beginning of period	$3,504,756	$3,345,515
Net income	404,259	116,489
	3,909,015	3,462,004
Cash dividends—$1.00 per share	563,500	—
Retained earnings at end of period	$3,345,515	$3,462,004

NOTES TO FINANCIAL STATEMENTS

Year ended August 31, 1959 and four months ended December 31, 1959

NOTE 1. *Investment in boxing subsidiaries*

A provision was made in the fiscal year ended August 31, 1959 for loss on the investment in the unconsolidated subsidiary, International Boxing Club of New York, Inc. This provision was in the gross amount of $200,000, but the charge to income was reduced to $100,000 to give effect to the use of the loss of the subsidiary in a consolidated federal income tax return for that year.

International Boxing Club, Inc. was liquidated on November 30, 1959 and its assets subject to its liabilities were transferred to a newly-formed subsidiary, Madison Square Garden Boxing, Inc. During the four months from August 31, 1959 to December 31, 1959 these subsidiaries had net incomes aggregating approximately $35,000. In these four months the Corporation took over certain of the activities formerly carried on by the subsidiary. These activities resulted in an operating loss (before effect on income tax) of approximately $75,000 in the four-month period. At December 31, 1959 the Corporation's investment in Madison Square Garden Boxing, Inc. (after the $200,000 allowance for loss) approximated the equity in net assets as shown by the books of the subsidiary.

NOTE 2. *Property, buildings and equipment*

No amount is included in the property account for the New York Rangers, a professional hockey team franchise of the National Hockey League, nor for the New York Knickerbockers, a professional basketball team franchise of the National Basketball Association, both of which are owned by the Corporation.

NOTE 3. *Public Liability Self-Insurance Reserve*

The Corporation carries outside public liability insurance against losses in excess of $20,000 per accident case. Estimated costs of disposition of claims outstanding at August 31, 1959 and December 31, 1959 not covered by outside insurance are not in excess of the reserves included in the balance sheets.

NOTE 4. *Contingent liabilities*

The Corporation and its boxing subsidiary and certain officers of the Corporation are defendants in civil suits brought under the federal anti-trust laws. One suit was settled in February 1960 at a cost of $50,000. Counsel for the Corporation are of the opinion that recovery, if any, in the other actions will not be material.

NOTE 5. *Income for four months ended December 31, 1959*

The results of operations for the four months ended December 31, 1959 are not necessarily indicative of results for a full fiscal year. As stated in Note 1 certain activities formerly conducted by a subsidiary have reduced income for the four months by $75,000 before taxes based on income or approximately $33,000 after such taxes. Net income for the four months ended December 31, 1958 (unaudited) was $202,010.